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Auditor General of British Columbia

2001/2002 Annual Report of the Auditor General of British Columbia

Serving the Legislative Assembly and the People of British Columbia

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Honourable Gary Collins
Minister of Finance
Province of British Columbia

Sir:

I have the honour to transmit herewith the 2001/2002 Annual Report of the Office of the Auditor General to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 10 of the Auditor General Act. The report is also available on our website: www.bcauditor.com. The printed version of our report will be available in approximately two weeks.

Wayne Strelioff

Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
July 2002

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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A note to the reader
Apart from the financial statements, all other information in this report is unaudited.

Auditor General's Comments

Wayne Strelioff, CA
Auditor General

I am pleased to present the annual report of my Office for the 2001/02 fiscal year.

This report encompasses the first full year that I have had the privilege to serve as Auditor General of British Columbia. It has been an interesting year for my Office, and a challenging year for my profession. In May a new government was elected, bringing with it a number of new priorities. Beyond the borders of British Columbia, recent developments in the corporate world reinforce the importance of auditor independence, and the need for vigilance in how auditors carry out their duties.

Over the course of the year, my Office continued to adapt to the new organizational structure that I introduced last year. The new structure will match our resources against five main operational sectors of government: Education, Finance & Transportation, Health, Natural Resources, and the Protection of Persons. The overall objective of this reorganization is to realign our strategic priorities, and ultimately our resources, towards matters of greatest importance to our client group, the Legislative Assembly. Our new structure is reflected in activity reports provided by each of the operational sectors, as well as from our Corporate Services group.

This annual report focuses on our operations—the work that we do, the tangible products of this work and how much this work cost as evidenced in our audited financial statements. In future years, our reports will have more of a strategic focus—putting the work we do in the context of how it contributes to our mission and objectives. My Office continues to analyze how best to measure our success in achieving our strategic priorities. Much of this work is embodied in my Service Plan for 2002/03 to 2004/05, and will be reflected in subsequent annual reports. Further effort will be required to build on this progress, and I commit to providing the Legislative Assembly with reports of steadily improving quality in each of the years to come.

Wayne Strelioff

Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
July 2002

Strategic Issues

A Changing Government

The ongoing relevance of our work—the assurances and advice we provide legislators—depends on our remaining responsive to changes in our operating environment. The past year saw a change in government, and with this came many adjustments in priorities and in how government conducts its business. While there have been several changes under the new administration, in our view four of these initiatives will have significant impacts on the overall operating environment:

- Greater use of alternative service delivery models, including public-private partnerships
- Changing systems of regulation, including more self-regulation
- Emphasizing the achievement of results rather than on the control of activities
- Centralizing management through shared service arrangements

As these initiatives unfold, we must ensure that legislators are provided with assurance that the risks to effective program delivery are being well managed.

Strengthening Government Accountability

Recent developments have provided opportunities for legislators and BC citizens to participate in a more meaningful way in government's decision making, and to hold government more accountable for its performance. Key developments that we believe will strengthen government's management and accountability include:

- Publishing ministry, Crown corporation and other government organization annual service plans at the same time that government releases its overall annual financial plan
- Goals and objectives of government and government organizations in published performance measures, targets and results
- A more proactive system of legislative standing committees
- More complete and reliable financial performance information

These are important ingredients to building and maintaining public confidence in our institutions of government. Much work needs to be done across government, including our Office, to nurture and sustain these developments. The effort required to fully develop these changes may be significant, but we believe the intended results are worthwhile.

Improving Our Performance

Any successful organization, be it in the public or private sector, faces the challenge of continually trying to improve its performance. In this regard we are no exception. Some opportunities for improvement are found as we overcome challenges in our operating environment. Other opportunities are generated when we challenge the way we carry out our business, so we can develop more effective practices. Opportunities to improve our performance exist.

The first opportunity is to have in place a renewed mandate for the Office. For over ten years, we and others have advocated proposals for renewal including the clarification of legislators' assurance expectations, means of bringing ourselves closer to our clients in the Legislative Assembly, and strengthening our own performance accountabilities. Our proposals have been through many reviews, consultations and debates, including being endorsed by members of the Select Standing Committee on Public Accounts. Recently, officials of government have advised us that revisions to the Auditor General Act will likely be introduced during the next year. We remain hopeful that our proposed revisions will be enacted, so that our Office can better fulfill the needs of legislators and the public.

A second opportunity relates to how we manage our human capital—a continuing priority and challenge. As with any knowledge-based organization, our employees are by far our most valuable resource. We try to match our competencies with the needs and expectations of legislators. The dynamic nature of our operating environment requires us to regularly examine our competencies, and periodically adjust our skill set. As a result of this process, over the course of the year we have bolstered our expertise in educational program analysis, training delivery and environmental audit. Looking forward, a large proportion of our

staff are approaching retirement age. While this situation presents succession management challenges, it provides opportunities for reshaping our workforce.

Our increasingly close working relationship with legislative auditors in other jurisdictions across the country represents a third opportunity. Our participation in the Canadian Council of Legislative Auditors (CCOLA) provides us with opportunities to meet and exchange ideas with our counterparts from the other nine provinces and the Office of the Auditor General of Canada. CCOLA has been active in developing standards and a consistent approach for work we do with financial statements, performance reports, and health information.

A fourth opportunity lies in strengthening our performance management and reporting systems. During the year we embarked on two new projects to improve our ability to create, manage and report our management information. Expected benefits of these new systems include an increased capability to reliably budget, monitor and forecast our activity levels and costs. These projects will be completed in the upcoming fiscal year.

Operating Results

Attesting to the Reliability of Government Financial Statements

Again this year, our Office expressed a reservation in our audit opinion on the summary financial statements of government. Recently, legislators amended the Budget Transparency and Accountability Act to require the government by 2004 to keep its books in line with Canadian generally accepted accounting principles. We are pleased with this development, but will continue to advocate early implementation of the requirement to include the financial results of school districts, universities, colleges and institutes, public health care organizations, and regional hospital districts in the financial statements of government.

Over the course of the year we completed 98 other financial audits, down from 100 the previous year. While our financial audit output decreased by only 2, the work was accomplished with 29% fewer hours than in the previous year. (2001/02—62,550 hours, 2000/01—87,800 hours). This significant reduction in audit hours was the result of several factors. We found significant efficiencies

in our approach to the summary financial statements. Much of this improvement stemmed from our new operationally-focussed organizational structure, and the resultant improved understanding of the business of government. This year we moved from a paper-based audit system to more of an electronic one—the increased use of technology further contributed to our overall efficiency. Finally, better planning allowed us to use far fewer contract staff than last year, reducing our investment in one-time training and familiarization costs.

Cost savings in our financial work allowed us to shift resources to examining the quality of government's service plans and reports, work on developing generally accepted performance reporting principles, further enhance our IT audit capacity, and increase our focus on environmental auditing.

Assessing the Quality of Government Service Plans and Reports

In November we released "Building Better Reports—Public Performance Reporting Practices in British Columbia." The report summarized the results of our review of the performance plans and annual reports of 20 ministries, Crown corporations and other government organizations. The purpose of the review was to gain an understanding of the quality of reporting being carried out by government, and to establish a baseline for reviewing reports in future years. Overall, most of the plans and reports we reviewed were well presented, but no one plan or annual report was completely satisfactory overall. This was not a significant concern —we expect the quality of reporting to improve with experience, the sharing of information and greater familiarity with expectations for external reporting.

Examining the Management of Risk Within Government Programs and Services

In June 2001 we released "Managing Interface Fire Risks," a report on how well governments in British Columbia are prepared for managing interface fires (wildfires that occur in areas where homes, businesses, cottages or other structures are located). While relatively few major interface fires occur in the province each year, those that do occur usually have costly consequences in terms of losses incurred by individuals and communities, and in terms of the cost of fire fighting. Although provincial and local governments

do many good things to help manage interface fire risks, there is significant room for improvement. The report presented a number of recommendations to the Provincial Emergency Program, the Ministry of Forests and the Office of the Fire Commissioner.

In February of 2002 we released two reports. The first, "Monitoring the Government's Finances," presented a framework of information to assess the finances of government based on five years of audited financial information and on guidance developed by the Canadian Institute of Chartered Accountants. The report contained a number of indicators of the financial health of the government.

"Management of the Information Technology Portfolio in the Ministry of Attorney General" was the second report released in February. The Attorney General's ministry served as a case study for assessing the management of IT systems using a portfolio management model. We were pleased to note that the ministry had established strong senior management control over the development and use of IT projects, although there were opportunities for improving assessments of project value and risk.

The final report released during the year was entitled "Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System." The audit focused on the way resources were allocated to the regional health care system over the period from 1999 to 2002. Overall we concluded that the Ministry of Health had been relying on historical spending levels rather than allocating resources to the regional health care system based on essential cost and performance information.

Special Reports

Early in the fiscal year our Office was asked to review certain issues relating to agreements between the Province and Greater Vancouver Transportation Authority ("TransLink"). We undertook the review, and in August released our report "Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure." In it, we concluded that the Province had not lived up to commitments to TransLink regarding the collection of vehicle levies, that rapid

transit expansion in Greater Vancouver was occurring as planned, and we suggested a number of improvements for TransLink's governance structure.

Providing Support to Standing Committees of the Legislative Assembly

Over the course of the year, we made many presentations to committees of the Legislative Assembly. In November we made a presentation to the Select Standing Committee on Crown Corporations concerning the nature of our work in respect to Crown corporations.

Also in November, we presented a funding proposal to the Select Standing Committee on Finance and Government Services —an all party committee of the Legislature. We are pleased with this new structure, as it marks a significant departure from previous practice. Previously we found ourselves in the awkward position of seeking funding from the government of the day— those whom we audit. Now we are able to make our requests for funding directly to our client, the Legislative Assembly.

The Select Standing Committee on Public Accounts is our primary vehicle for presenting information to members of the Legislative Assembly. Over the course of the year, we appeared six times before the committee to present the results of our work.

In addition to appearances before legislative committees, in November we presented all members of the Legislature with a "Quick Reference Guide to Performance Measures." We felt this publication would be useful for MLA's, given the increased emphasis on performance reporting by government organizations under the Budget Transparency and Accountability Act. We received a high degree of positive feedback from MLA's, as well as from legislative audit offices in other provinces, some of whom have borrowed the guide to assist their MLA's.

Our Financial and Human Resources

	2001–2002	2000–2001	1999–2000
Total revenues	$9,685,089	$8,442,867	$8,427,866
Total expenses	$9,019,115	$8,259,967	$8,214,767
Actual FTE's	88	87	87
Employee cost (% of total costs)	72.5%	72.0%	74.1%
Staff turnover	9%	11%	6%

(Our 2001–02 audited financial statements are included at end of this report.)

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Keyvan Ahmadi, Russ Jones, Peter Gregory, Doreen Sullivan, Les McAdams, Endre Dolhai, Lynne Ronneseth, Wayne Strelioff, Errol Price and Jane McCannell

Grace Culic

The Office of the Auditor General

Our Mission

To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance

Our Vision

Making a difference for the people of British Columbia by contributing to accountable and well-performing government

Our Values

As we pursue our goals, we are all committed to:

Excellence

We strive to meet the highest standards of service, professionalism, integrity and independence.

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.

We seek to maintain a relationship of mutual respect and trust with those we serve, and willingly share our experience and expertise.

Our people

We value the unique contribution and talents each individual adds to our Office and community.

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on working together, we promote a spirit of cooperation and teamwork throughout our organization.

We are committed to the concept of personal and professional development and support quality-of-life endeavours.

The Office of the Auditor General

Our Office prides itself on the professionalism with which we operate. We must be successful in a number of key areas: strategic direction, structure, organizational performance, benchmarking, and communication with key customers.

Notable achievements include:

- the establishment of a professional practices committee to ensure all audit methodology reflects best practices; and
- completion of an annual service plan and annual business plans for each sector.

Areas where we still need to improve include how we:

- measure and monitor our performance; and
- communicate with our customers.

Strategic Direction

Our annual service plan covering the 2002/03 financial year was tabled in the Legislature in February 2002.

The plan describes our proposed work program for 2002/03 and the resources required to implement the plan for the year. It includes:

- an outline of the principal outcomes and outputs of the Auditor General's Office for the year;
- specific details of the planned delivery over the next 12 months of products and services;
- the organizational arrangements and management initiatives planned by the Office for the year; and
- the Office's projected financial position for 2002/03.

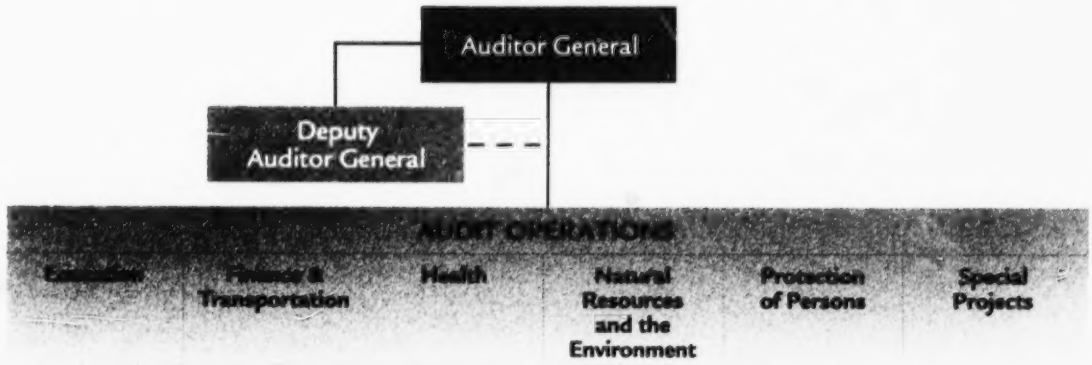
The contents of our annual service plan for 2002/03 can be accessed on the Office's Internet website at www.bcauditor.com.

The development of an annual service plan and presentation to the Legislature, following consultation with the Finance and Government Services Committee, reinforces the special relationship between the Office and the Legislature. It also recognizes that the independence and autonomy granted to the Auditor General by the Legislature needs to be accompanied by well-established lines of accountability back to the Legislature.

Sector business plans for 2002/03 were also developed based on our Corporate Plan for 2002–2005. These plans translate the high-level mission, vision and objectives of the corporate plan into detailed actions.

Our Structure

In November 2000, we reorganized our audit operations to better address the key issues facing government. We aligned our audit resources into five operating groups, each focusing on a key sector of government.



Attesting to the reliability of government financial statements
Assessing the quality of government service plan reports
Assessing the management of risk within government programs and services
Providing strong support to the standing committees of the Legislative Assembly

CORPORATE SERVICES

Planning
Policies and standards
Business support

This past year, significant efforts were made to manage changes resulting from the reorganization and in developing a common vision and supporting business programs.

Organizational Performance

The Office produces a number of reports to track how it is performing.

For the 2002/03 year, improvements will be made to our system of quarterly and monthly reports so that we will be better able to track our performance against our corporate objectives and focus on our products, people and finances.

We also began a project to implement a management information system that will improve our ability to track our performance. The system will be operational by spring 2003.

In the coming year we will be contacting our customers for feedback on our performance. And, in September 2002, we will complete our biannual internal work environment survey.

Benchmarking

In 2002/03, we intend to begin formally benchmarking our operations against other legislative audit offices and comparable organizations in the private sector, and publicly reporting our performance in relation to these benchmarks.

Susan Jennings, Errol Price, Michael Macdonell

Service to Our Customers

Our Goal

Legislators and the public receive the best information possible for assessing the performance of government

Our Objective:

Legislators and the public receive relevant, reliable and understandable information about:

- the planned and actual results of government, and
- how well government is managing the key risks it faces in achieving its planned results.

Key Achievements:

- We issued 98 financial statement audit opinions.
- We tabled 4 reports examining how government manages certain key risks in the areas of financial reporting, health funding, information technology management and fire suppression.
- We tabled one report on the quality of government's performance reporting to the public.
- We produced a "Quick Reference Guide to Performance Measures," which we distributed to all members of the Legislature.

Our Customers Include:

- The legislators, our primary client representing the people of British Columbia.
- The Public Accounts Committee.

Our Stakeholders Include:

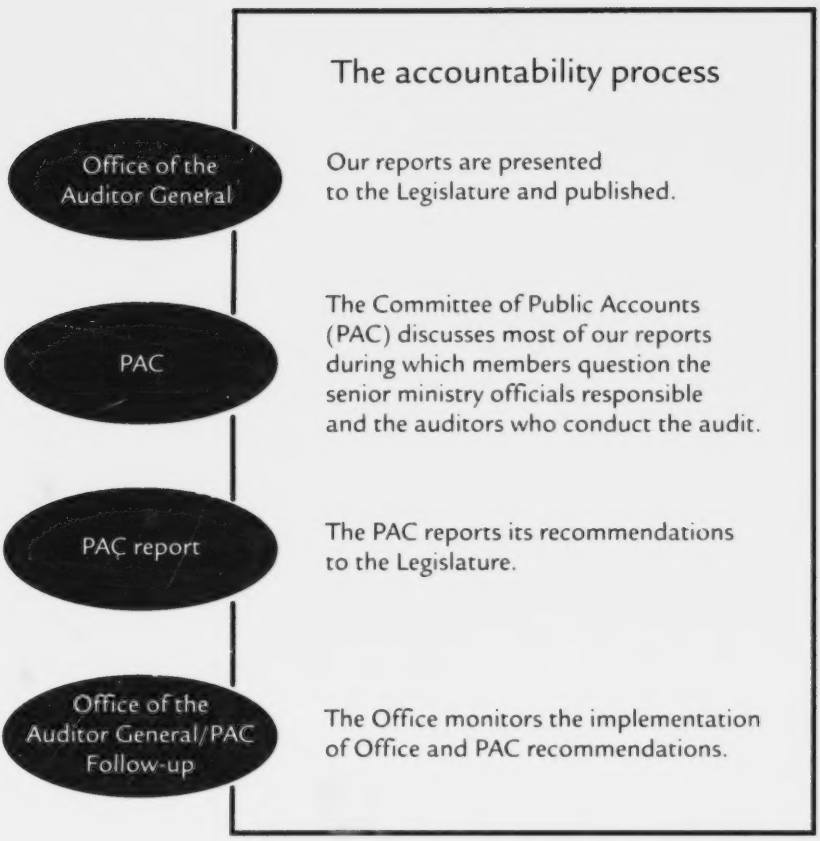
- Audited organizations.
- Interest groups who may use the Office' reports or otherwise have an interest in our work.

Our Services Include:

- Attesting to the reliability of the financial statements of government.
- Assessing the quality of government service plan reports.
- Examining how government manages its key risks.

Areas for Improvement:

- Enhanced information on customer satisfaction.
- Enhanced tracking of the use of our reports by ministries and other stakeholder groups.


The accountability process
Office of the Auditor General
Our reports are presented to the Legislature and published.
PAC
The Committee of Public Accounts (PAC) discusses most of our reports during which members question the senior ministry officials responsible and the auditors who conduct the audit.
PAC report
The PAC reports its recommendations to the Legislature.
Office of the Auditor General/PAC Follow-up
The Office monitors the implementation of Office and PAC recommendations.

Service to Our Customers

Our Independence

The Auditor General is an Officer of the Legislature, appointed by the Lieutenant Governor on the recommendation of the Legislative Assembly, and is therefore independent of the government of the day. The Auditor General is non-partisan and objective, reporting to the Legislature as a whole on his or her impartial assessments of government accountability and performance.

Our Mandate and Role

Under the authority of the Auditor General Act, the Office is responsible for auditing most of government, including its ministries, Crown corporations and other organizations. In exercising this responsibility, we must be attentive to the needs, expectations and priorities of the Legislature. At the same time, we must remain open, responsive and aware of the needs and expectations of public sector managers so that we can provide sound and practical advice and recommendations for administrative improvement.

Our reports provide assurance to the Legislature on matters relating to past events or practices within the public sector, as well as offer suggestions for improving future public sector performance.

Public Accounts Committee

The Select Standing Committee on Public Accounts (PAC) is recognized as the primary customer of the Office. The committee's role is to assess the integrity, economy, efficiency and effectiveness of public sector management on behalf of the Legislature and the public. As part of this role, the PAC scrutinizes matters raised in our reports to the Legislature and prepares a summary report on this review to the Legislature. The Auditor General briefs the committee on his reports to the Legislature as well as on any other matters of interest to the Committee.

Follow-Up

We perform follow-up reviews to provide the Legislative Assembly and the public with an update on the progress made by management in implementing our recommendations as well as those made by the Select Standing Committee on Public Accounts.

Our recommendations are designed to improve public sector performance, and are an important value-added component of our work.

As agreed to by the Select Standing Committee on Public Accounts, we provide interim reports to the Committee as follow-up reviews are completed. Periodically, these follow-up reports are brought together and presented to the Legislative Assembly. Our next follow-up summary report is expected to be tabled in the summer of 2002.

During the year, we provided the following follow-up reports to the Committee:

- Ministry of Forests/Managing the Woodlot Licence Program
  1999/2000 Report 4
- Collection of Overdue Accounts Receivable
  1998/1999: Report 3
- Report on the Preparedness of the Government of British Columbia in Dealing with the Year 2000 Problem
  October 1999
  1999/2000: Report 7
- British Columbia Ferry Corporation
  - Fleet and Terminal Maintenance Management
  - Operational Safety
    1995/1996: Report 2

There were 60 recommendations in the above reports. We are pleased to note that management has accepted all of the recommendations and 40 of those recommendations have been fully or substantially implemented. Of the other recommendations, 18 had been partially implemented and on one, alternate action had been taken. There was only one recommendation where no action had been taken.

In addition to the reports identified above, follow-up reports will be issued on the following:

- Management Consulting Engagements in Government
  2000/2001 Report 4
- Fostering a Safe Learning Environment:
  How the British Columbia School System is Doing,
  2000/2001 Report 1

- Social Housing:
  - The Governance of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation;
  - The Management of Social Housing Subsidies

  1999/2000 Report 8
- Earthquake Preparedness
  1996/1997 Report 1
- Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use
  1998/1999 Report 2

Strengthening Our Independence

For the first time in the Office's history, a committee of the Legislative Assembly, the Select Standing Committee on Finance and Government Services, reviewed our funding requirements. In prior years, the Office had received funding from Treasury Board, a Committee of Cabinet. This meant we received our funding from those we audited. Going before the committee for our funding clarifies our role as an independent office of the Legislature.

Summary of Our Performance

Key strategies, actions, and outputs

1. Encourage complete and reliable financial reporting by government

Actions	Outputs	Measures
Audit the government's summary financial statements	■ Assessment of the reliability of the financial statements ■ Advice on improvements to accounting policies and presentation, and on improvements to financial control processes	■ *Timeliness of report:* The audit opinion on the summary financial statements was released two weeks earlier than last year ■ *Cost of work done:* The audit of the summary financial statements of government remains our single largest project. As stated in this report, we are strengthening our project costing systems so that we can report accordingly ■ *Quality of work*: As with all of our audit work, the audit of the summary statements was subject to review by our internal

- Social Housing:
  - The Governance of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation;
  - The Management of Social Housing Subsidies

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Actions	Outputs	Measures
Audit the government's summary financial statements (continued)		professional practices group, and externally by standards examiners from the Institute of Chartered Accountants of British Columbia. No significant issues were noted in these reviews ■ *Extent to which advice is accepted:* In general, our suggestions for improvement were well received by the Ministry of Finance ■ *Extent to which advice is followed:* Of major significance is the reservation contained in our audit report concerning the inclusion of school districts, universities, colleges and institutes, public health care organizations and regional hospital districts. We will continue to push for early adoption of Generally Accepted Accounting Policies
Audit of nearly 100 financial statements of government organizations	■ Assessment of the reliability of the financial statements ■ Advice on improvements to accounting policies and presentation, and on improvements to financial control processes	■ *Timeliness of reports:* In all cases we completed our work and provided our audit opinions in time for inclusion with the organizations' report to the board of directors or other relevant oversight body ■ *Cost of work done:* Costs are tracked on a weekly basis for each audit. Variances from budget identified and followed-up in a timely manner ■ *Quality of work:* All of our audit work was subject to review by our internal professional practices group, and externally by standards examiners from the Institute of Chartered Accountants of British Columbia. No significant issues were noted in these reviews ■ *Extent to which advice is accepted*: Where relevant, we provide formal suggestions to our auditees in the form of a management letter ■ *Extent to which advice is followed:* Individual audit teams are responsible for following-up, at least annually, on our recommendations to management. We do not, at the present time, have an office-wide system for tracking the progress of these recommendations

Actions	Outputs	Measures
Calculate key indicators and analyze trends on the state of the government's finances	▪ Report containing key indicators and trends	▪ *Timeliness of report:* Our report "Monitoring the Government's Finances" was released in February 2002 ▪ *Cost of work done:* As stated in this report, we are strengthening our project costing systems so that we can report accordingly ▪ *Extent to which report found to be useful:* The report provided useful information for discussion and debate by members of the Legislative Assembly. At this time we have not developed measures to specifically address the usefulness of our reports
Oversee the work of private sector auditors with respect to the audit of 39 government organizations for which the Auditor General is not the appointed auditor	▪ Assessments of the reliability of work conducted by other auditors ▪ Inventory of key issues by sector for further monitoring	▪ *Conformity of financial statement presentation to sector standard:* All work performed on our behalf by private sector auditors was conducted to our satisfaction
Review government's progress in implementing the recommendations of the Budget Process Review Panel with respect to financial reporting	▪ Assessment of progress	▪ The introduction of the Budget Transparency and Accountability Act (BTAA), and recent amendments to it, have gone a long way towards addressing the issues raised by the Budget Process Review Panel. Consequently our focus has shifted towards monitoring government's progress in fully implementing the terms of the BTAA, many of which are only now coming into force

2. Encourage complete and reliable reporting by government of its performance plans and reports

Actions	Outputs	Measures
Review a selection of performance plans and reports	▪ Assessment of the quality of performance plans and reports ▪ Recommendations on how to improve the performance plans and reports	▪ *Timeliness of report:* "Building Better Reports – Public Performance Reporting Practices in British Columbia" was released in November, 2001 ▪ *Cost of work done:* This was a major office-wide initiative. As stated in this report, we are strengthening our project costing systems so that we can report accordingly ▪ *Clarity and usefulness of assessment:* At this time we have not developed measures to specifically address the usefulness of our reports

Actions	Outputs	Measures
Review a selection of performance plans and reports (continued)		▪ *Extent to which advice is accepted:* Our report resulted in the Select Standing Committee on Public Accounts issuing 6 recommendations for improving the accountability reporting of government ▪ *Extent to which advice is followed:* Our advice continues to be incorporated in the guidelines for public reporting issued by central agencies
Review government's progress in implementing the recommendations of the Budget Process Review Panel with respect to performance reporting	▪ Assessment of progress	▪ The introduction of the Budget Transparency and Accountability Act (BTAA), and recent amendments to it, have gone a long way towards addressing the issues raised by the Budget Process Review Panel. Consequently our focus has shifted towards monitoring government's progress in fully implementing the terms of the BTAA, many of which are only now coming into force. This issue was addressed in "Building Better Reports--Public Performance Reporting Practices in British Columbia"
Review the extent to which the capacity for developing and reporting results-focused information is being developed within government	▪ Assessment of capacity ▪ Recommendations on how to enhance capacity development	▪ The restructuring of government that took place during the year suggested it would be appropriate to defer this work until the 2002/03 fiscal year
Develop (in conjunction with the Canadian legislative audit community) methodology for auditing performance reports	▪ Initial methodology for use in auditing ▪ performance information	▪ A methodology for assessing the plans and reports of government was developed, and was employed in our work supporting "Building Better Reports – Public Performance Reporting in British Columbia"
Seek input from legislators regarding their needs with respect to performance information	▪ Inventory of the information needs of current legislators	▪ Informal discussions were held with a number of MLA's. This resulted in our issuing a "Quick Reference Guide to Performance Measures" to all members of the Legislative Assembly

3. Assess how well government manages its key risks

Actions	Outputs	Measures
Enhance and maintain our understanding of the key risks (by sector)	▪ Inventory of key risks ▪ Inventory of potential projects	▪ *Audits that assess the major risks.* Over the course of the year we completed three risk audits in the critical areas of health funding, information technology management and fire suppression, and one unplanned special project
Prepare reports for legislators about how well government manages its key risks		
Complete assessments of selected key risks started in 2000-2001: ▪ the degree to which government is prepared for major fires in woodland/urban areas ▪ how the Ministry of Attorney General evaluates the cost-effectiveness of its information systems and whether it manages its portfolio of systems accordingly ▪ whether the Ministry of Health uses appropriate information to allocate resources to the regional health care system ▪ the elements of a work environment most closely associated with quality service and the extent to which those elements are prevalent in the BC government work environment	▪ Information for legislators about how well government manages its key risks ▪ Assessments regarding government's management of key risks ▪ Recommendations for improvement, where appropriate	▪ This project has been re-oriented towards an assessment of the management of key risks associated with reorganization. The work will be completed during 2002-03 ▪ *Timeliness of report and cost.* - "Managing Interface Fire Risks," June 2001 - "Management of the Information Technology Portfolio in the Ministry of Attorney General," February 2002 - "Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System," March 2002 - "Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service," not released until April, 2002 - One additional project was undertaken at the request of government. Our report "Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure" was released in August, 2001. As stated in this report, we are strengthening our project costing systems so that we can report accordingly ▪ *Usefulness of the information.* At this time we have not developed measures to specifically address the usefulness of our reports ▪ *Extent to which advice is accepted* "Managing Interface Fire Risks" – all recommendations were endorsed by the Public Accounts Committee, December 12, 2001

Actions	Outputs	Measures
Complete assessments of selected key risks started in 2000–2001 (continued)		- "Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure" – all recommendations were endorsed by the Public Accounts Committee, January 9, 2002 - Recommendations for the remaining reports have yet to be considered by the Public Accounts Committee ■ *Extent to which advice is followed:* This will be measured when we conduct follow-up reviews of these projects in approximately two years
Initiate assessments of selected key risks for each of the sectors: ■ financial management in K–12 ■ continuing care ■ natural resources ■ child and family development ■ finance	NOTE: No outputs for 2001/2002 – all reports arising from these audits will be issued after March 2002	N/A
Continue follow-up reports on prior work related to such matters as: ■ Earthquake preparedness ■ Protecting drinking-water sources ■ Maintaining human capital in the public service ■ BC Ferry Corporation fleet and terminal maintenance management, and operational safety ■ Governance and accountability in the regionalization of health services ■ Managing the cost of drug therapies and fostering appropriate drug use ■ Fostering a safe learning environment ■ Pulp and paper mill effluent permit ■ Management of woodlots	■ Status reports for Public Accounts Committee ■ Annual report to Legislative Assembly	■ Follow-ups for two of these reports will not be issued. Issues related to governance and accountability in the regionalization of health services were addressed in our report "Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System." Issues related to pulp and paper mill effluent permits were addressed by changes in legislation, consequently there was no need to revisit our recommendations ■ Follow-up reviews for these projects have begun. Results will be reported to the Legislative Assembly in the summer of 2002

Report Relevance

We track the relevance of our reports through two means: a survey of legislators and through the ongoing monitoring of the use of our reports on our Internet site.

The survey of legislators is planned for the coming year. Our objective is to determine whether our reports meet the legislators' expectations in terms of relevance, reliability, and timeliness.

We recently implemented a new software program called WebTrends which allows us to gain significant insight into the usage of our website. In 2001/02, our web page had 89,191 visits. The exhibit below outlines the top 10 reports in terms of the number of website visits in the past year. We are also in the process of introducing a system to track the usage of our reports by management in government.

The Office's "Top10" Reports by Web Visits, April 2001 to March 2002

	Top Directories	Visits
1	Protecting Drinking-Water Sources *Report 5 – April 1999*	7,593
2	Overview of the Provincial Government's Collection of Overdue Accounts Receivable *Report 3 – October 1998*	5,288
3	Fostering a Safe Learning Environment: How the British Columbia School System is Doing *Report 1 – June 2000*	4,266
4	Report on Government Financial Accountability for the 1997/98 Fiscal Year *Report 2 – June 1999*	3,772
5	A Review of the Fast Ferry Project: Governance and Risk Management *Report 5 – October 1999*	3,695
6	A Review of the Estimates Process in British Columbia *Report 4 – February 1999*	3,297
7	1999 Follow-up of Performance Audits/Reviews *Report 1 – May 1999*	2,660
8	Maintaining Human Capital in the British Columbia Public Service: The Role of Training and Development *Report 3 – August 1999*	2,646
9	Follow-up of Performance and Compliance Audits, a Review and a Study *Report 3 – December 2000*	2,488
10	Report on the 1996/97 Public Accounts *Report 2 – February 1998*	2,482

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Bill Gilhooly and Norma Louden

Peter Gregory and Ken Ryan-Lloyd

Our Business

Our Goal

We become an exemplary organization serving the Legislative Assembly and the public

Our Objectives:

- Legislators and the public support our work and role.
- Our performance improves continuously.
- Our audit approach reflects best practices.

Key Achievements:

- We bolstered our capacity in the areas of educational program analysis, training delivery, environmental audit and in assessing government's performance information.
- Legislatures continued their support for our programs – our funding levels were maintained.

Key Strategies:

1. Obtain support for the necessary mandate, resources and independence.
2. Report on our performance using best practices.
3. Use our resources effectively.
4. Maintain our capacity to use information technology.
5. Maintain a good working environment.

Areas for Improvement:

- New Auditor General Act remains outstanding.
- Our external accountability reporting does not yet reflect best practice because:
  - Our internal financial reporting system does not address all of our needs.
  - Our project costing system does not fully meet our needs.

1. Mandate, Resources and Independence

To continue to meet the needs of legislators, the Office maintains an ongoing dialogue with members of the Legislative Assembly. This includes communication via formal channels, such as appearances before committees of the Legislature, as well as informal discussions.

Foremost, through these discussions it became apparent to us that legislators would benefit from our assistance in understanding performance measures and targets and in making use of service plans and reports containing this information. Accordingly, we produced a "Quick Reference Guide to Performance Measures" in November 2001, which we distributed to all members of the Legislature.

Over the past decade, this Office and other interested parties have continued to advocate for revisions to the Auditor General Act. We have suggested amendments to the Act that are intended to state more clearly the responsibilities of the Office, to bring ourselves closer to our clients in the Legislative Assembly and to strengthen our performance accountabilities. Recently, officials of government have advised us that revisions to the Auditor General Act will likely be introduced during the next year. We remain hopeful that our preferred revisions will be enacted, so that our Office can better fulfill the needs of legislators.

In prior years, funding for the Office was a decision made by those whom we audited—the government of the day—rather than by those to whom we are accountable—the Legislative Assembly. This year, for the first time, our funding was approved by the Select Standing Committee on Finance and Government Services —an all party committee of the Legislature. We believe this is a far more appropriate body for decisions related to our Office's funding.

The Office is responsible for auditing the use of public money by government. However, in each year we are able to directly examine programs representing only a small proportion of total public sector spending. We believe we should review all significant programs of government over a reasonable timeframe. Funding constraints limit our scope of coverage in any one year, resulting in longer intervals between reviews in major program areas than we believe is prudent. To allow us to better address certain key risks,

we had sought an increase to our annual allocation. This year however, most areas of government faced expenditure reductions. Fortunately, our funding levels were maintained. With wage costs comprising almost three-quarters of our total expenditure, any reduction in funding to our Office would directly translate into a decrease in our ability to fulfill our mandate.

2. Reporting on Our Performance

In June 2001, we released our 2000/01 annual report, "Auditing in the Public Interest." To be fair, we included this report in our evaluation of a cross-section of reports from government organizations, as reported in "Building Better Reports—Public Performance Reporting Practices in British Columbia." Detailed results from the review of individual organizations were not included in this report, except where we commented on our own report. By reporting details of our own assessment, we held ourselves to a higher standard than other organizations. We felt this was most appropriate—that we should walk the talk—and will continue to do the same in future reviews.

We recognize, and have publicly reported, that there is significant room for improvement in how we present our results. We have taken steps to address specific deficiencies, starting with our 2002/03–2004/05 Service Plan, released February 2002. Our service plan lays a framework for better reporting in future years by creating a strategic focus in describing what we do, and in identifying more outcome-oriented measures of performance. Our ability to report on efficiencies and project management remains hampered by shortcomings in our information technology capacity, but we are working to build in this area.

3. Efficient Use of Resources

To retain credibility as the auditors of government, we believe it is important for us to hold ourselves to at least as high a standard as those whom we audit. That is why, as described above, we have endeavoured to be transparent in critiquing our own public reporting. In terms of financial management, this report contains independently audited financial statements, and a detailed discussion and analysis of year over year financial variances and variances from budget.

In our performance plan, we had committed to apply the criteria used in our performance audits to our own operations, and report on the extent to which recommendations for improvement had been implemented. We have not, as yet, incorporated a system for assessing the applicability to ourselves of recommendations we have made to others.

4. Capacity to Use Information Technology

Over the course of the year we made some significant advances in the use of information technology to increase our productivity. Most of the work done in support of our financial audits is recorded in electronic form, allowing for improved information flows and the potential for long-term savings. Some of these time savings were realized in the current year, as evidenced by the reduction in total hours devoted to auditing financial statements.

Our capacity to use technology in support of our work was augmented by the hiring of an IT audit specialist. In addition, two staff were working towards their CISA (Certified Information Systems Auditor) designation.

Our capacity to manage our own operations is limited by deficiencies in our financial and project costing systems. To address these deficiencies, a three year information technology plan was created. At year end, the plan had executive approval. It is expected we will begin to implement the plan by mid-year.

5. Working Environment

We believe maintaining a positive and challenging work environment is an important factor in our ability to retain a knowledge-based, mobile workforce with skill-sets much in demand in the marketplace. Government's compensation structure makes it difficult for us to compete directly with the private sector in wage-rate terms for certain skill sets. We can, however, create competitive advantage by ensuring that our Office is viewed as an employer of choice in terms of our ability to provide interesting and challenging work, opportunities for personal growth and development, and by creating a positive, healthy work environment. In 2000 we conducted a work

environment survey that provided us with many suggestions for improvement. The follow-up survey will be conducted in 2002 to track our progress on a variety of key issues.

Our new organizational structure is beginning to allow for a better mix of work for individual employees, and is providing opportunities for growth and development to those who are ready. Our overall rate of employee turnover was 9%, in keeping with historic patterns and consistent with transitions that are normal and healthy for any professional organization.

We continue to provide training for students in the accounting profession. Turnover in this segment of the office was 20% last year, a figure that was generally consistent with prior years. A high rate of turnover is inevitable in a training office, as a large proportion of students seek new employment opportunities when their training is complete. However, our ability to attract talented entry-level employees provides a large talent pool from which to draw new staff into our professional ranks.

The dynamic nature of our operating environment requires us to regularly examine our workforce competencies, and periodically adjust our skill-sets. To improve our ability to match our skills with those that will best meet the needs of legislators, this year we developed a new competency framework. In 2002/03 the framework will be applied in a gap analysis of our existing workforce to provide the foundation for a competency-based human resource plan.

Sector Profiles

There are five audit groups, each focussed on a major sector of the BC public sector and a group that manages Special Projects. The following provides a brief overview of each of the sectors.

Profile of Education Sector

Lynne Ronneseth
Senior Principal

Personnel:

Christine Davison
Ian Irvine
Jennie Leung
Rene Loo
Cathy MacArthur
Arun Narula
Hemendra Shah
Angela Tao
Tony Timms
Colin Young

Key Responsibilities

- Oversight of the Province's 60 school districts, 22 colleges and institutes, and 6 universities
- Ministry of Advanced Education
- Ministry of Education
- British Columbia Investment Management Corporation and Pooled Investment Portfolios

Achievements 2001/2002

- Financial statement audits of all six of the Province's universities, one college and one institute, and some of their related entities.
- Audits of enrolment reports produced by the above entities.
- Audit of education spending disclosed in government summary financial statements and notes to the financial statements.
- Audits of British Columbia Investment Management Corporation and Pooled Investment Portfolios.
- Review of service plans and reports of the ministries of Education and Advanced Education.
- Review of progress to on our recommendations in Report 1: 2000/01 – "Fostering a Safe Learning Environment: How the British Columbia Public School System is Doing" (report to be released summer 2002).

Key Issues for 2002/2003

- Government is planning to include schools, colleges and universities in its summary financial statements by the year 2004/05. This will require school districts to move toward full compliance with generally accepted accounting principles, and prepare interim financial statements at government's year end of March 31.
- Reporting on accomplishments of schools, colleges and universities in service plans and reports—linked to spending—is key to making the right decisions for maintaining and fostering improvements in the quality of education delivered in British Columbia.
- New funding formulae have been developed for allocating funds to school districts and post-secondary institutions. Equity in how resources are distributed in the new system is important.
- The capacity for the public school system to foster a safe learning environment remains one of the keys to student achievement.

Profile of Finance & Transportation Sector

Keyvan Ahmadi
Senior Principal

Personnel:

Peter Bourne
Kendrick Cheung
Ada Chiang
Faye Fletcher
Joji Fortin
Pam Hamilton
Vernon Jones
Peter Leung
Randolph Nicholson
Jamie Orr
John Sitch
Niro Sivakumar
Geoff Stagg
Veronica Suarez
Travis Waite
Wendy Wu

Key Responsibilities

- Primary responsibility for the Summary Financial Statements audit
- Primary responsibility for the Office's IT audit function
- Primary responsibility for developing methodology to assess risks associated with public private partnerships (P3s)
- Ministry of Finance
- Ministry of Provincial Revenue
- Ministry of Transportation
- Ministry of Management Services
- BC Securities Commission and CSA
- Pacific Technology Resources Society
- Public Sector Employees Community Fund
- Members of the Legislative Assembly Superannuation Account
- BC Public Service Long Term Disability Plan
- BC Transportation Financing Authority**
- Insurance Corporation of BC*
- BC Rail*
- BC Ferry Corp*
- BC Transit*
- Rapid Transit Project 2000*
- BC Pension Corporation*
- BC Building Corporation*

*Oversight responsibility
**2002/03 responsibility

Key Achievements 2001/2002

- Led the Summary Planning Task Force which resulted in significant time and resource savings in plans for the audit of the Summary Financial Statements.
- Surpassed our goal for 2001/02 for allocating Summary Financial Statement work to Office's assurance groups responsible for education, health, natural resources and protection of people and properties.
- Met the goal for issuance of the audit opinion on the Summary Financial Statements which was set two weeks earlier than last year.
- Published the report titled "Monitoring the Government's Finances. This report sets out a framework of information to monitor the government's finances based on the last five years of audited financial information and on guidance developed by The Canadian Institute of Chartered Accountants.
- Completed the last audits of the four Public Sector pension plans at the time when the plans were undergoing significant changes in governance. Under the new governance, the responsibility for appointing auditors passed to the governing boards of the individual plans, who selected our successors through a tendering process. The transition to the new auditors took place smoothly.
- Resolved many major Summary Financial Statements accounting issues through constructive dialogue with senior government officials, including the Deputy Ministers of Finance, Transportation, and Labour, the Comptroller General, Members of the Board of Directors and their Audit Committees of Statutory Pension Plans, and representatives and auditors of Workers' Compensation Board, BC Transit and BC Rail.
- Surpassed our goals for 2001/02 in developing IT audit capacity for the Office.
- Completed field work on a comprehensive audit of the government's MVS computer environment. This environment supports many applications that we rely on in our audits and are considered to be "mission-critical" by government. The report will be issued in 2002/03.
- Developed TASKbase—a knowledge-base auditing application —as a fully functional stand-alone system, and planned further development of it for use on Office's network.

- Met the timetable set for an Office-wide interest group to work together to prepare a document to clearly explain the Office's position in relation with Public-Private Partnership (P3s) initiatives in government.
- Completed review of service plans of the Ministry of Finance, Ministry of Transportation and Highways, ICBC and BC Ferry Corporation, the results of which supported the Office's report titled "Building Better Reports—Public Performance Reporting Practices in British Columbia."

Key Issues for 2002/2003

- Developing a sound IT audit approach and providing necessary training to our staff.
- Completing and implementing the TASKbase network application.
- The move towards public-private partnerships (P3s) in procuring goods and services will bring risk factors that differ from those found in traditional government procurement processes. We must identify these, and develop audit approaches to ensure that the public interests in financial performance, value for money and conduct of business is protected as the number of P3s grows.
- The government is moving towards better sector reporting in its financial statements. This will present logistical challenges in our coordination of the summary financial statements, and in use of our resources.
- The government is preparing to fully adopt Canadian generally accepted accounting principles for senior governments by 2004. Including the schools, universities, colleges and hospitals (SUCH) sector in the audited summary financial statements will present logistical challenges to the audit team.
- Further improvement in timeliness in publishing the public accounts places a strain on our resources, and on the capacity of government to produce financial statements earlier. We need to revisit our audit model.
- The quarterly reporting by government of the Summary Financial Statements provides both opportunity for better audit time frame and challenges related with potentially providing assurance on them.
- Changing technologies, particularly the expansion of government's e-commerce initiatives will continue to affect our reliance on corporate systems.

Profile of Health Sector

Les McAdams
Senior Principal

Personnel:

Norma Glendinning
Ken Lane
David Lau
Deborah Law
Sarah Macdonell
Ken Ryan-Lloyd
Osami Saito
Owen Trist
Barbara Vanderlinden
Jo-Ann Youmans

Key Responsibilities

- Ministry of Health Services
- Ministry of Health Planning
- Fraser Health Authority
- Interior Health Authority
- Northern Health Authority
- Vancouver Coastal Health Authority
- Vancouver Island Health Authority
- Provincial Health Services Authority
- Health Care Risk Management Society

Key Achievements in 2001/2002

- Report on: "Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System." The purpose of this audit was to assess whether the (then) Ministry of Health was using appropriate information to allocate resources to the health care system.
- Took on the primary financial auditor role for one of the six newly formed health authorities, the Fraser Health Authority.
- Completed the financial statement audits of the (then) Coast Garibaldi Community Health Services Society (an amalgam of Vancouver Coastal Health Authority) and the (then) Campbell River/Nootka Community Health Council (an amalgam of Vancouver Island Health Authority).

- Audited health spending disclosed in both the Consolidated Revenue Fund and Summary Financial Statements in the Public Accounts.
- Completed a review the Ministry of Health performance plans and annual report as part of an Office-wide review of Ministry plans and reports.

Key Issues for 2002/2003

- The health sector is undergoing dramatic change in governance, accountability arrangements and service delivery, while experiencing significant cost pressures and labour unrest. This provides unusual challenges in the delivery of audit services.
- Privatization and public-private partnerships (P3) appear to be likely in the health sector in the immediate future. This will raise performance and audit issues, which we will monitor.
- For the first time, each province will report on a series of indicators for the health sector, as required under a federal/provincial/territorial agreement. We will provide independent assurance to readers about the completeness and reliability of the information provided by British Columbia. This will involve a cooperative effort with other legislative auditors. The planning for this was largely completed in 2001/02.

Profile of Natural Resources Sector

Russ Jones
Senior Principal

Personnel:

Scott Bailey
Roy Butcher
Jennifer Chaillier
Jean Gordon
Don Kelso
Jagdip Mann
Brian Miller
Derek Moore
Lisa Moore
Tin Lok Ng
Molly Pearce
Bruce Perry
Laurie Selwood
Morris Sydor

Key Responsibilities

- Primary responsibility for the Office's environmental audit function
- Ministry of Agriculture, Food and Fisheries
- Ministry of Forests
- Ministry of Competition, Science and Enterprise
- Ministry of Energy and Mines
- Ministry of Sustainable Resource Management
- Ministry of Water, Land and Air Protection
- Land and Water BC Inc.
- Tourism BC
- Columbia Power Corporation
- B.C. Assessment Authority
- B.C. Hydro and Power Authority
- B.C. Transportation Financing Authority
- B.C. Liquor Distribution Branch
- Oil and Gas Commission

Key Achievements in 2001/2002

- Issued all major audit opinions and final reports to management by July 31, 2001.
- Audited spending in the natural resources sector disclosed in both the Consolidated Revenue Fund and Summary Financial Statements in the Public Accounts.
- Established an environmental audit function within the natural resource sector team.
- Made significant contribution to the review of government service plans and reports, as part of an Office-wide review.
- Provided value-added audit services to Forest Renewal British Columbia and Fisheries Renewal British Columbia as they wound-up operations at March 31, 2002.

Key Issues for 2002/2003

- Olympic Bid—We are monitoring the process government and the bid corporation are involved in. Issues of interest include government's understanding of the total financial implications, the funding mechanisms adopted, governance over the bid process, and the manner in which environmental, economic and social issues are integrated into the bid process.
- Contaminated sites—Government is not only a regulator of contaminated sites, but also a landowner with contaminated sites in its inventory.
- British Columbia's oil and gas sector is growing stronger. In total, oil, natural gas and gas by-product production was worth $4.7 billion in 2000. The government is streamlining regulations, reducing taxes, upgrading roads and supporting research in order to sustain further expansion of the industry. There are currently more than 32,000 people working in the industry, with 7,000 in exploration and 25,000 in downstream industries.
- Meeting expectations for earlier financial statement reporting deadlines.
- Monitoring the development of draft sustainable development principles and their impact on decisions resulting from resource development matters.

Profile of Protection Sector

Errol Price
Senior Principal

Personnel:

Ian Aaron
Roger Brown
Kathy Crawley
Bob Faulkner
Susan Jennings
Brian Jones
Mark Johnston
Kanwaljeet Kuckreja
Grace Lee
Michael Macdonell
Mike McStravick
Hermin Saksono
Wayne Schmitz
Anna Yaary

Key Responsibilities

- Primary responsibility for the Office's accountability and performance reporting audits
- Ministry of Attorney General
- Ministry of Children and Family Development
- Ministry of Community, Aboriginal & Women's Services
- Ministry of Public Safety and Solicitor General
- Ministry of Skills Development & Labour
- Legal Services Society
- Public Guardian and Trustee
- British Columbia Housing Management Commission
- Homeowner Protection Office
- Provincial Capital Commission
- Provincial Rental Housing Corporation
- British Columbia Lottery Corporation
- Workers' Compensation Board
- Elections BC
- Office of the Conflict of Interest Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman
- Office of the Police Complaints Commissioner

Key Achievements in 2001/2002

- Contributed to improved service plans and service plan reports by carrying out our first review of government service plans and service plan reports (see "Building Better Reports: Public Performance Reporting Practices in British Columbia").
- Contributed to improved public performance reporting in Canada by working with our colleagues from other legislative audit offices and with the CCAF (a non-profit national research foundation) to help develop national principles for public performance reporting.
- Supported the work of legislators by designing and issuing a "Quick Reference Guide to Performance Measurement."
- Added credibility to government's financial reporting by auditing and issuing auditors' opinions on the financial statements of seven government organizations.
- Audited spending in the protection sector disclosed in both the Consolidated Revenue Fund and Summary Financial Statements in the Public Accounts.
- Contributed to improved financial reporting by working with the Public Guardian and Trustee to help it issue for the first time, full audited financial statements for its own operations and for the Estates and Trusts it administers.
- Added credibility to the Workers' Compensation Board's financial reporting by auditing and issuing an auditors' opinion on the board's annual financial statements.
- Provided information to legislators about how well government is managing its key risks in achieving intended results with respect to interface fires ("Managing Interface Fire Risks") and information management technology ("Management of the Information Technology Portfolio in the Ministry of Attorney General").
- Assisted the provincial government by providing assurance to the Government of Canada about the Province's compliance with the cost-sharing agreements.

Key Issues for 2002/2003

- To work with government officials and legislators to develop consensus on appropriate performance reporting principles for use in the British Columbia public sector.
- To work with our colleagues from legislative audit offices across the country to develop an appropriate, cost-effective methodology for auditing service plan reports.
- To work with government to design and implement an assurance program with respect to service plan reports for ministries, agencies and for government as a whole.

Special Projects

Endre Dolhai
Senior Principal

Key Responsibilities

- Complete projects on emerging issues needing to be addressed by the office on a timely basis
- Manage the Memorandum of Understanding with the Minister of Finance which sets out the roles of the Minister and the Auditor General for appointing auditors of public bodies
- Manage the follow-up review process to ensure that reports issued by the Office are followed up on a timely basis in accordance with Office and professional standards

Key Achievements in 2001/2002

- Provided information to legislators about how well government is managing its key risks in achieving intended results with respect to the management of the agreement between the Province and TransLink (2001/02 Report 2: "Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure"). This review was undertaken on the request of the government and related to certain issues arising since TransLink was set up.

Key Issues for 2002/2003

- The government is undertaking significant changes to how public programs and services are delivered. There is a need to monitor these changes and identify areas that the Office should review in order to provide assurance that the applicable risks have been identified and managed appropriately.
- The Office's follow-up process has been changed recently to implement the guidelines agreed to with the Select Standing Committee on Public Accounts. There is a need to monitor how the process is working and to ensure that reviews are carried out efficiently and the reports provided to the Select Standing Committee on Public Accounts on a timely basis. Two summary reports to the Public Accounts Committee are to be issued during the year.

- The Memorandum of Understanding with the Minister of Finance was entered into in 1996. A thorough review of the process will be carried out during 2002/03 to determine how the process is working and changes needed to make the process more effective and efficient.

Corporate Services

Jane McCannell
Senior Principal

Personnel:

Stan Andersen
Ce Cayne
Grace Culic
Nancy Dawes
Bill Gilhooly
Sandy Grant
Patti Hupe
Norma Louden
Anne McLeod
Michelle Rowsell
Debbie Sawin
Doreen Sullivan
Tracy Theodore
Russell Tribe
Jodi Vieweg
Pat Wilkes

Key Responsibilities

- Providing Information technology support throughout the Office
- Management of Office assets and facilities
- Development and maintenance of financial information technology and human resource management policies, systems and practices
- Coordination of the development and management of the Office's budget
- Processing of accounts
- Monthly and quarterly reporting on Office performance
- Provision of personnel support services covering areas such as recruitment and selection, training, salary administration, and employee relations

Key Achievements in 2001/2002

- Initiated a project to develop a new management information system to improve the Office's ability to monitor and report on its performance.
- Launched a new intranet site to facilitate and encourage the sharing of information across the Office.

- Initiated a project to develop Office-wide competencies to ensure that we have the knowledge, skills and abilities to continue to deliver quality products now and into the future.
- Implemented a new salary administration policy.
- Responded to 1824 Help Desk calls.
- Installed a new software program, WebTrends, to allow us to better track usage of our Internet site.
- Received a 96% satisfaction rate with the overall quality of the Help Desk support.

Shared Services Initiative

Statutory Officers of the Legislature occupy a unique and valued position. They are the elected members' representatives and are independent of government—each plays an important role in the process of holding government accountable to the Legislative Assembly. Their independence, both in fact and appearance, is essential to their credibility and, ultimately, their effectiveness.

Each Officer requires sufficient independence from government administrative controls to ensure they can organize, staff and manage their work as they deem appropriate, within their budgets and within the provisions of legislation. Officers are accountable directly to the Legislature for the administration of their offices.

To meet our responsibilities, our Office regularly examines means of improving administrative effectiveness and efficiency. These efforts in the past have included consideration of sharing administrative services and, to a limited degree, we have shared services with other Legislative Offices. The nature of our mandate does not allow us to participate in government-wide shared service initiatives.

In November 2001, the Officers of the Legislature commissioned a study to report on "the advisability of the Officers sharing some or all of their management and processing services e.g. financial management, accommodation, administration, information technology, and human resource management." This report was completed in January 2002. The report suggested that there were only minimal savings to be realized.

In December 2001, the Legislature's Select Standing Committee on Finance and Government Services recommended budget reductions for most Officers over a 3 year period, noting that a large portion of the reductions should be met through the sharing of management services.

In early February, the Auditor General advised the other Officers that he would not pursue the sharing of management services. While the low probability of achieving significant savings was a factor, of greater importance were questions regarding our ability to maintain our independence. Work that we have begun

in relation to expenses of the Police Complaint Commissioner, and independent financial audits of at least one other Legislative Office that are planned for the upcoming year, have reinforced for us the need to preserve our independence. Recent events centering around the questions of auditor independence add weight to our assertion that this is no time to compromising the independence of our Office.

While there do not appear to be opportunities for administrative cost savings via shared services, we do believe there are opportunities for greater efficiency and effectiveness in how we conduct our work. We plan to focus on working with other legislative audit offices, as this provides the greatest potential for strengthening our own practices.

Keeping on Top of Professional Best Practices

Keeping abreast of developments in accounting and auditing in the public sector is important to the Office—we learn how to do new things, and how to do old things better. Our work with professional organizations is imperative if we are to continue to meet the needs and expectations of our customers. In addition to our work with professional associations, we have established a professional practices committee within the Office to monitor our practices, and coordinate updates to our methodology.

Internal Professional Practices Group

The Office's professional practices committee is responsible for providing staff with the latest developments in accounting and auditing matters. The committee provides advice to staff on current and emerging technical issues and develops policies, standards and practices that ensure the Office provides quality information, assurance and advice in a consistent and efficient manner.

There is frequent liaison with professional bodies throughout the year and the Office provides advice on accounting and auditing issues, in relation to exposure drafts and discussion papers prepared by the Canadian Institute of Chartered Accountants (CICA) and CCCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation).

Professional Activities

The Office maintains strong links with professional associations connected with accounting and auditing developments, and with public sector management. Some of the professional associations with which the Office has had involvement include:

Canadian Council of Legislative Auditors (CCOLA)

CCOLA is an organization devoted to sharing information and supporting the continued development of auditing methodology, practices and professional development. The Council's membership consists of the provincial Auditors General or Provincial Auditors of the Canadian provinces and the federal Auditor General. It also has one associate member, the Auditor General of Bermuda.

Regular meetings of CCOLA provide an opportunity for sharing information and professional expertise on auditing issues. They are also an important way of improving the effectiveness and performance of the Office. In addition to the regular meetings, links have been established through the circulation of information on developments in accounting and auditing, and through a variety of exchanges among key audit and management personnel.

A number of the Office's staff hold positions in CCOLA interest groups and committees. These include the Health Care Study Group; the Strategic Issues Study Group; the Performance Reporting and Auditing Group; the Human Resources Network; the Information Technology Committee; and the Extranet Committee.

In October 2001, the Auditor General and Deputy Auditor General attended the 2001 CCOLA and Canadian Council Public Accounts Committees (CCPAC) Annual Conference held in Regina, Saskatchewan.

In February 2002, the Office hosted the CCOLA Financial Statement Symposium. The conference was attended by representatives from each provincial audit office, the federal audit office, and Bermuda. Increasingly, conference calls take place to share experience and advise on key issues in a more timely, cost-effective and pro-active manner.

Canadian Institute of Chartered Accountants

- Wayne Strelioff, Auditor General, served as an associate of the Public Sector Accounting Board (PSAB).
- Peter Gregory, Deputy Auditor General, is the Chair of the Assurance Standards Board.
- Frank Barr, Assistant Auditor General (retired in March), served as Chair of the Risk Management Committee.

Office staff also participate in committee work at the Institute.

School of Public Administration, University of Victoria

- Wayne Strelioff, Auditor General, served as a member of this faculty's Advisory Board.

Institute of Chartered Accountants of British Columbia

- Frank Barr, Assistant Auditor General (retired in March), is President of the Institute of Chartered Accountants of British Columbia.
- Endre Dolhai, Senior Principal, served as a member of the Membership Committee.
- Lynne Ronneseth, Senior Principal, served as a member on the Government Organizations' Accounting and Auditing Forum.
- Lisa Moore, Project Leader, served as a board member of the Victoria Chapter.

CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation)

- Wayne Strelioff, Auditor General, is a Governor.

Institute of Public Administration of Canada

- Errol Price, Senior Principal, is Past National President of the Institute of Public Administration of Canada.

In addition to national memberships, a number of our staff participate in local chapters of other professional associations,

further contributing to our professional development and the goals and objectives of those organizations and societies:

Canadian Evaluation Society

- Norma Glendinning, Project Leader, is the Vancouver Island Coordinator.

Quality Council of British Columbia

- Jo-Ann Youmans, Director, is President of the Victoria Chapter.

Financial Management Institute

- Endre Dolhai, Senior Principal, is a Board Member of the Victoria Chapter.

Canadian College of Health Service Executives

- Jo-Ann Youmans, Director, is Director-at-Large of the Vancouver Island Chapter.

Certified Management Accountants

- Barbara Vanderlinden, Project Leader, is Vice Chair, Victoria Chapter and Moderator of Strategic Leadership Program.

International Visitors

Our Office is recognized internationally as a leader in legislative auditing. As a result, every year we have visitors from other countries who come to learn about our work and practices.

During the year, David Chung began an 18 month exchange to our Office from the Korean Board of Audit Inspection. David is here to learn about our methods of performance and environmental audit.

In November 2001, a delegation of representatives from the People's Republic of China visited the Office for a presentation on crown corporations governance. The group was composed of the chairs of four of China's major national corporations and supervisors from China's Supervisory Panel of State-Owned Enterprises.

Our People

Overview of Our Human Capital

Significant Staffing Issues

Total staff numbers increased by only one from last year. This reflects a cautious approach to staffing in the face of uncertainty surrounding the Commissioner for Environment and Sustainability. Once we received clarification that the position would not be created, but that our Office would retain the funding allocated for this function, we began to fill positions in the environmental auditing area. Some of these positions were filled by existing staff, resulting in a minimal net change in our numbers.

An area of concern is the increasing proportion of staff, primarily at senior levels, that will be eligible for retirement within five years. In the interest of the long-term continuity of the Office, we have begun work on a succession plan.

An Overview of Human Capital Statistics for the Past Three Years

	2000	2001	2002
Number of staff	87	87	88
Executive	10	12	10
Audit	62	57	61
Corporate Services	15	18	17
Average training and development hours for staff	63	77	57
Staff turnover	6%	11%	9%
Student turnover	20%	8%	20%
Number of hires	12	16	15
Number of exits	7	17	11
Number of staff with a professional accounting designation	51	52	50
Number of staff with a Certified Management Consulting designation	7	7	8
Number of staff with Certified Information Systems Auditor designation	2	2	1
Number of accounting students (FTEs)	15	13	15
Age range of staff	22-63	24-60	23-60
Average age of staff classified at ML5 and above	51	52	51
Number of staff eligible for retirement within 5 years (age 55 or more)	23	22	26

Figures for total staff represent a numeric average based on the total number of paid hours. Not readily evident in the total figure is the impact of temporary staff and contractors. The ability to use temporary staff provides the Office with a demand management tool during peak periods, and prevents over-staffing during non-peak periods.

In March 2002, Frank Barr, Assistant Auditor General, retired from the Office after 25 years of service. Frank continues to be active in the accounting community in his duties as president of the British Columbia Institute of Chartered Accountants.

Learning and Professional Development

Our Investment

Learning and professional development is a priority for the Office. The table below portrays our investment in formal training arrangements, showing a total of $330,480 was invested in 2001/02 in formal professional development.

However, in an environment requiring continuous learning for all staff, much of what we gain knowledge about comes while on-the-job. At present, we have no means of measuring our investment in on-the-job learning, but we believe it is significant. On-the-job learning is certainly a major component of the Office's new competency framework.

Learning and Professional Development Investment 2001/02

	Investment	Per employee
Direct investments in conferences, seminars, tuition assistance, etc	$147,576	$1,533
Indirect investments (salary costs)	$182,804	$1,924
Total Investment in Learning Activities	$330,480	$3,478
% of Office Budget	4.9%	

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Learning and Professional Development Investment (2001/02)

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Office-wide Competency Framework

As we implement our new strategic direction, we need to ensure we maintain and develop our capacity to provide the services to the Legislature as outlined in our strategic plan. In this regard, we completed a review of our competency framework. Competencies are terms used to describe a cluster of related knowledge, skills and attributes that contribute to successful job performance and ultimately to the goals and priorities of the Office. Competencies are typically expressed in terms of visible, on-the-job behaviours. Our new competencies were designed with a future focus—that is, what the Office requires in the next 18 to 36 months.

The competency framework will be completed in July 2002. Human resource management practices for Office recruitment and selection, training and development, performance management, and succession planning will be linked to the framework.

Professional Designations

During the year, a number of staff earned professional designations:

Kathy Crawley, Certified Management Consultant
Kanwaljeet Kuckreja, Chartered Accountant
Robert Leadbetter, Chartered Accountant
Grace Lee, Chartered Accountant
Hermin Saksono, Chartered Accountant
Barbara Vanderlinden, Certified Management Accountant

Grace Lee, Kanwaljeet Kuckreja, Wayne Strelioff, Hermin Saksono, Kathy Crawley and Joji Fortin

Barbara Vanderlinden

The Office celebrated two firsts last year with Barbara Vanderlinden becoming our first graduate of the CMA program and our first provincial gold medallist.

Ross Jones, Errol Price and Endre Dolhai

Stan Andersen and Su-Lin Shum

Our Finances

- Commentary on our Finances
- Statement of Management Responsibility
- Independent Auditors' Report
- Financial Statements

Our Finances

Commentary on Our Finances

Revenues

We receive our revenue from an annual voted appropriation of the Legislative Assembly, which includes amounts for specific items such as salaries and benefits, rent, travel and other operating expenses. We also recover our costs for various assurance engagements carried out with public bodies, under an arrangement with the Minister of Finance.

For 2001/2002, our revenues were $368,000 higher than planned. This was largely the result of our doing more cost-recovery assurance work with public bodies than we had originally planned, including audits we conduct directly and those that are done by other auditors acting as our agents. Our revenues also increased because government decided to fund vacation leave accruals centrally rather than through individual appropriations.

Commissioner of Sustainability and the Environment

In 2000/2001, the government created the Office for the Commissioner of Sustainability and the Environment, to be located within our Office and included as part of our mandate. An additional $720,000 was added to our budget for 2001/2002 to fund the Commissioner's Office. However, in the first quarter of 2001/2002, the new government cancelled the Commissioner's Office. Nonetheless, it was determined that the Auditor General should retain all funding allocated for the Commissioner, and use these funds to pursue initiatives such as environmental auditing and the examination of government's service plan reports.

Salaries and Benefits

During the year, salaries and benefits were $334,000 less than planned, and our FTE usage well below the level authorized. Uncertainty surrounding the creation of the Office for the Commissioner of Sustainability and the Environment caused us to defer staffing decisions until our funding was confirmed through the new Finance and Government Services Committee —a significant under spend resulted from the time lag between clarification of our funding and the hiring of new staff.

While our overall complement did not change significantly from last year, staffing costs increased by $596,000. Much of this increase was the result of a cross-government salary and benefit increase effective April 1, 2001. The slight increase in full time staff and the costs of promotions and in-range salary changes also contributed.

Professional Fees

Our Office uses the services of outside professionals to augment and support our assurance work. Services provided range from subject matter expertise in various lines of business related to our audit sectors, to those we engage to perform financial attest audits on selected public bodies. We also engage contractors to help us meet the requirements for delivering our audit of the public accounts to the Legislature in a timely manner.

During the year, we spent $903,000 on professional services, $330,000 more than was included in the Estimates ($573,000). Although significantly more than planned, this figure was consistent with the prior year ($912,517). Higher than planned costs were the result of a larger-than-usual number of contractors used to complete the 2000/2001 audit of the public accounts (work that was completed in the first quarter of fiscal 2001/2002), and a decision to continue a number of public body audits using private sector audit firms rather than conducting the work using our own staff.

Office Expenses

Office expenses include a variety of items, including supplies, stationery and postage, research materials, professional fees and dues, training costs and course fees, and minor furniture and fixtures.

Last year, office expenses were $408,000, about $120,000 higher than both planned and last year's cost. The increase was due largely to more resources being devoted to training than in the prior year, as our office builds more knowledge and expertise in particular sectors. Additional training was also needed to bolster our capacity in environmental and information technology audit, in examining government's performance information, and in examining public-private partnerships.

Public Reports

During fiscal 2001/02 we spent $42,000 to produce publications related to our public reports, which was $138,000 less than planned. The change was due mostly to an increased utilization of our website by the public. Not only does this new distribution channel provide instant access to our reports, over time it has also decreased demand for hard copies of each report. The budget for fiscal 2002/2003 has been reduced to reflect this pattern.

(\$ Thousands)

	Fiscal 2002 Budget	Fiscal 2002 Actual	Variance	Fiscal 2003 Budget
Sources of Revenue				
Appropriation	\$7,817	\$7,897	(\$80)	\$8,317
Recoveries	1,500	1,788	(288)	1,200
Total Revenue	\$9,317	\$9,685	(\$368)	\$9,517
Expenses				
Total Salaries and Benefits	\$7,075	\$6,541	\$534	\$7,186
Professional services	573	903	(330)	750
Building Occupancy Charges	453	438	15	439
Office Expenses	289	408	(119)	376
Travel	339	298	41	272
Capital Asset Amortization	218	197	21	193
Data and Voice	133	130	3	167
Grants	57	61	(4)	61
Public Reports	180	42	138	73
Total Expenses	\$9,317	\$9,019	298	\$9,517
Unused Appropriation	\$0	\$666	(\$666)	\$0

	Actuals				Line Items as a Percent				Year-to-Year Comparisons in Line Items		
	2002 $	2001 $	2000 $	1999 $	2002 %	2001 %	2000 %	1999 %	Change from 01 to 02 %	Change from 00 to 01 %	Change from 99 to 00 %
Revenue					As a Percentage of Revenue						
Appropriations	7,897,402	6,743,000	6,923,000	6,923,000	81.54	79.87	82.14	83.20	17.1	-2.6	0.0
Recoveries	1,787,687	1,699,867	1,504,866	1,398,056	18.46	20.13	17.86	16.80	5.2	13.0	7.6
Total Revenue	9,685,089	8,442,867	8,427,866	8,321,056	100.00	100.00	100.00	100.00	14.7	0.2	1.3
Expenses					As a % of Expenses						
Average FTE burn	88.0	86.9	86.8	88.6							
Total salaries and benefits	6,540,789	5,944,947	6,088,190	6,137,586	72.5	72.0	74.1	76.5	10.0	-2.4	-0.8
Professional services	903,038	912,517	456,647	335,526	10.0	11.0	5.6	4.2	-1.0	99.8	36.1
Building occupancy charges	438,162	433,703	437,550	546,530	4.9	5.3	5.3	6.8	1.0	-0.9	-19.9
Office expenses	408,114	286,402	298,276	224,457	4.5	3.5	3.6	2.8	42.5	-4.0	32.9
Travel	298,412	258,445	269,921	293,677	3.3	3.1	3.3	3.7	15.5	-4.3	-8.1
Capital asset amortization	197,030	190,107	291,137	171,864	2.2	2.3	3.5	2.1	3.6	-34.7	69.4
Data and voice	130,428	145,560	163,547	146,063	1.4	1.8	2.0	1.8	-10.4	-11.0	12.0
Grants	61,000	57,000	57,000	57,000	0.7	0.7	0.7	0.7	7.0	0.0	0.0
Public reports	42,142	31,286	152,499	110,624	0.5	0.4	1.9	1.4	34.7	-79.5	37.9
Total expenses	9,019,115	8,259,967	8,214,767	8,023,327	100.0	100.0	100.0	100.0	9.2	0.6	2.4
					As a % of Appropriation						
Unused appropriations	665,953	182,900	213,099	297,729	8.43	2.71	3.08	4.30	264.1	-14.2	-28.4

OFFICE OF THE
Auditor General
of British Columbia

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OFFICE OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

STATEMENT OF MANAGEMENT RESPONSIBILITY

We are responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

We have prepared the financial statements in accordance with generally accepted Canadian accounting principles.

We develop and maintain systems of internal control that give reasonable assurance that our Office has:

- Operated within its authorized limits;
- Safeguarded assets; and
- Kept complete and accurate financial records.

The independent auditors, Green Horwood Munro & Tuckey, Chartered Accountants, were appointed by Treasury Board, pursuant to Section 22 of the Auditor General Act, to audit the accounts of our Office for the fiscal year ended March 31, 2002, and to report the results of the audit to the Speaker of the Legislative Assembly. The report of the auditors outlines the scope of their audit and their opinion on our financial statements.

Wayne Strelioff
Auditor General

Jane McCannell
Executive Financial Officer

May 17, 2002

GREEN, HORWOOD, MUNRO & TUCKEY

CHARTERED ACCOUNTANTS

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GEORGE A.V. HOBBEN, B.Sc., C.A.*
GEORGE WONG, B.Sc., C.A.*
T. KEITH SMITH, B.Sc., C.A.*

ASSOCIATES
CHRISTOPHER HORWOOD, B.Comm., C.A.*
JOSEPH M. WERKER, C.A.

* denotes incorporated practice

May 17, 2002

AUDITORS' REPORT

To the Speaker,
The Legislative Assembly
Province of British Columbia

We have audited the Statement of Financial Position of the Office of the Auditor General of British Columbia as at March 31, 2002 and the Statements of Operations and Changes in Net Assets for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of British Columbia as at March 31, 2002, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Green Horwood Munro & Tuckey

Office of the Auditor General of British Columbia
Statement of Financial Position

As at March 31	2002	2001
Assets		
Current Assets		
Advances Recoverable	$ 12,961	$ 21,666
Accounts Receivable	6,090	35,079
Work in Progress (Note 3)	570,600	554,619
Due from the Consolidated Revenue Fund	477,910	162,253
	1,067,561	773,617
Capital Assets (Note 7)	325,469	320,620
	$ 1,393,030	$ 1,094,237
Liabilities		
Accounts Payable	$ 271,772	$ 182,872
Workforce Adjustment Liability(Note 6)	131,885	
Accrued Leave Liability (Note 5)	663,904	590,745
	1,067,561	773,617
Net Assets	$ 325,469	$ 320,620

Commitments (Note 8)

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Office Executive Group.

Wayne Strelioff
Auditor General

Jane McCannell
Executive Financial Officer

Auditor General
of British Columbia

Office of the Auditor General of British Columbia
Statement of Operations

For the Year Ending March 31	2002 Planned	2002 Actual	2001 Actual
REVENUE			
Voted appropriation (Note 4)	$ 7,817,000	$ 7,817,000	$ 6,645,000
Recoveries from agencies	1,500,000	1,787,687	1,699,867
Other amounts (Note 5)		80,402	98,000
	9,317,000	9,685,089	8,442,867
EXPENSES			
Salaries	5,853,000	5,444,548	5,018,765
Employee benefits (Note 5)	1,222,000	1,096,241	926,182
Salaries and benefits	7,075,000	6,540,789	5,944,947
Building occupancy charges	453,000	438,162	433,703
Professional services	573,000	903,038	912,517
Travel	339,000	298,412	258,445
Office expenses	289,000	408,114	286,402
Data and voice communications	133,000	130,428	145,560
Capital assets amortization (Note 7)	218,000	197,030	190,107
Public reports	180,000	42,142	31,286
Grants	57,000	61,000	57,000
	9,317,000	9,019,115	8,259,967
Excess of Revenue Over Expenses	$	$ 665,974	$ 182,900
Unused Appropriation	$	$ 665,974	$ 182,900

The accompanying notes are an integral part of the financial statements.

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets

For the Year Ending March 31	2002		2001
	Budget	Actual	Actual
Net Assets – beginning of year		$ 320,620	$ 270,695
Appropriations for purchase of capital assets (Note 4)	$211,000	201,879	240,032
Capital asset amortization	(218,000)	(197,030)	(190,107)
Increase in Net Assets		4,849	49,925
Net Assets – end of year		$ 325,469	$ 320,620

The accompanying notes are an integral part of the financial statements.

1. Authority

The Auditor General is an Officer of the Legislature of British Columbia, independent of the Government, with a mandate to meet the requirements of the Auditor General Act. This mandate is to provide independent assessments and advice that enhance government accountability and performance.

Funding for the operation of the Office of the Auditor General (hereafter the "Office") is provided through a voted appropriation (Vote 2) and by billing government agencies for assurance and related services they receive, pursuant to a Memorandum of Understanding with the Minister of Finance. All payments are made from, and funds are deposited in, the Province's Consolidated Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a) *Accrual basis*

The financial statements are accounted for on an accrual basis.

b) Gross basis

Revenue, including recoveries from government agencies, and expenses, are recorded on a gross basis.

c) Revenue

Revenue is recognized when related costs are incurred.

d) Expense

Expense is recognized when goods and services are acquired or a liability is incurred.

e) Net Assets

Our net assets represents the accumulated cost of our capital assets less accumulated amortization.

f) Statement of Cash Flows

A Statement of Cash Flows has not been prepared, as it would provide no additional useful information.

2. Significant Accounting Policies (continued)

g) *Capital Assets*

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of capital assets, as follows:

Computer hardware and software	3 years
Furniture and equipment	5 years
Tenant improvements	5 years

3. Work in Progress

For the year ending March 31	2002	2001
Assurance engagements performed by the Office	$ 405,400	$ 403,713
Assurance engagements performed by authorized agents of the Office	115,200	69,000
Management services provided by the Office	50,000	81,906
Totals	$ 570,600	$ 554,619

4. Appropriations

Appropriations for our Office are approved by the Legislative Assembly and included in the government's estimates as voted through the Supply Act. The Office receives approval to spend funds through separate operating and capital appropriations. The unused appropriations cannot be used by the Office in subsequent fiscal years.

For the year ending March 31	2002			2001
	Operating	Capital	Total	Total
Appropriations	7,817,000	211,000	8,028,000	$ 6,903,000
Recoveries	1,787,687		1,787,687	1,699,867
Other amounts(Note 5)	80,402		80,402	98,000
Gross funds available	9,685,089	211,000	9,896,089	8,700,867
Operating expenses	(9,019,115)		(9,019,115)	(8,259,967)
Capital acquisitions		(201,879)	(201,879)	(240,032)
Unused appropriations	665,974	9,121	675,095	$ 200,868

4. Appropriations (continued)

During the year, we received authorization to access contingency funds of $310,000 to pay the costs of an assurance engagement requested by the government. These funds were available to us only if we could not pay the costs of the engagement with our appropriation. Since we were able to do so, we did not require the contingency funds. These contingency funds are, therefore, not included in our appropriation or in our other types of revenue.

5. Employee Benefits and Leave Liability

Accumulated liability with respect to vacation and other leave entitlements due to our employees is $663,904 as at March 31, 2002 (2001 – $590,745). In prior years, the Office fully funded this amount by transferring funds to the government's leave liability account to cover future payment of these entitlements. However during fiscal 2002, the government decided to fund these costs centrally, amounting to $80,402.

6. Workforce Adjustment Liability

During the year, the Office entered into several voluntary departure and early retirement agreements with employees, as part of a government-wide workforce adjustment strategy. At March 31, 2002, a liability of $131,885 existed. This amount will be paid during the fiscal year ending March 31, 2003.

7. Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Hardware and Software	$ 712,771	$ 416,677	$ 296,094	$ 285,265
Furniture and equipment	120,099	90,724	29,375	35,355
Tenant Improvements	778,563	778,563		
	$ 1,611,433	$ 1,285,964	$ 325,469	$ 320,620

8. Commitments

The Office has a leasehold commitment with the British Columbia Buildings Corporation for building occupancy costs. This lease has a 10 year term to October 2004. The future minimum lease payments for office space for the next three fiscal years are:

2002/2003	$ 417,696
2003/2004	417,696
2004/2005	243,656
	$ 1,079,048

9. Pension and Retirement Benefits

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The Public Service Pension Plan is a multi-employer, defined benefit plan and is available to substantially all of the Office's employees. On behalf of employers, the British Columbia Pension Corporation administers the Plan, including payment of pension benefits to employees to whom the Act applies. The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between the employees and employers.

The Office also contributes through the Provincial Government payroll system for specific termination benefits as provided for under collective agreements and conditions of employment. The cost of these employee future benefits are recognized as an expense in the year that contributions are paid.

10. Comparative Figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Appendices

- Appendix A
  Government Entities and Trust Funds and Their Auditors

- Appendix B
  A Summary of the Office's 2001/02 Reports

- Appendix C
  External Presentations

Appendix A
Government Entities and Trust Funds and Their Auditors

Government Organizations, Enterprises, Pension plans, Investments Funds and Other Agencies—Their Inclusion in, or Exclusion from, the Province's 2000/01 Financial Statements and Their Auditors

Entities included in the Summary Financial Statements

	Audited by	
	Auditor General	Authorized Auditors
55552513 British Columbia Ltd.[1]	X	
577315 British Columbia Ltd.[2]	X	
580440 B.C. Ltd.[3]	X	
632121 British Columbia Ltd.	X	
634349 British Columbia Ltd.	X	
B.C. Community Financial Services Corporation		X
B.C. Festival of the Arts Society		X
B.C. Games Society		X
B.C. Health Care Risk Management Society		X
B.C. Pavilion Corporation		X
BC Society for the Distribution of Gaming Revenue to Charities	X	
BC Transportation Financing Authority	X	
Highway Constructors Ltd.	X	
BCIF Management Ltd.		X
British Columbia Arts Council[4]		
British Columbia Assessment Authority	X	
British Columbia Buildings Corporation		X
British Columbia Enterprise Corporation	X	
British Columbia Ferry Corporation		X
British Columbia Health Research Foundation		X

[1] This company owns shares in Skeena Cellulose Inc.

[2] This company had investments in Western Star Trucks Holdings Ltd.

[3] This company provides funding to the Vancouver Trade and Convention Centre Authority which, in turn, was constructing the Vancouver Trade and Convention Centre.

[4] The organization's financial statements were unaudited.

Appendix A
Government Entities and Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
British Columbia Heritage Trust		x
British Columbia Housing Management Commission		x
British Columbia Hydro and Power Authority		x
British Columbia Liquor Distribution Branch[5]	x	
British Columbia Lottery Corporation		x
British Columbia Railway Company		x
British Columbia Securities Commission	x	
British Columbia Systems Corporation		x
British Columbia Trade Development Corporation		x
British Columbia Transit		x
Canadian Blood Services[6]		x
Columbia Basin Trust		x
Columbia Power Corporation	x	
Arrow Lakes Power Company	x	
Columbia Basin Power Company	x	
Power Project Planning Joint Venture	x	
Creston Valley Wildlife Management Authority Trust Fund	x	
Discovery Enterprises Inc.		x
Duke Point Development Limited	x	
First Peoples' Heritage, Language and Cultural Council		x
Fisheries Renewal BC	x	
Forensic Psychiatric Services Commission		x
Forest Renewal BC	x	
New Forest Opportunities Ltd.	x	
Homeowner Protection Office	x	
Industry Training and Apprenticeship Commission	x	
Insurance Corporation of British Columbia		x

[5] Ministry of Competition, Science and Enterprise

[6] This organization reflects a government partnership among Canadian provinces and is proportionally consolidated based on the province's share (14.7%) of the total provincial contributions to the partnership.

Appendix A
Government Entities and Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
Land and Water British Columbia Inc.	x	
Legal Services Society	x	
Legal Aid Federal/Provincial Agreement	x	
Oil and Gas Commission	x	
Okanagan Valley Tree Fruit Authority		x
Organized Crime Agency of British Columbia Society		x
Pacific National Exhibition		x
Private Post-Secondary Education Commission		x
Provincial Capital Commission	x	
Provincial Rental Housing Corporation		x
Rapid Transit Project 2000 Ltd.		x
Science Council of British Columbia		x
Tourism British Columbia	x	
Vancouver Trade and Convention Centre Authority	x	
Victoria Line Ltd.	x	
Entities Not Included in the Summary Financial Statements		
British Columbia Institute of Technology	x	
Enrolment Audit	x	
British Columbia Investment Management Corporation	x	
British Columbia Pension Corporation	x	
Campbell River/Nootka Community Health Council (Part of Vancouver Island Health Authority)	x	
Coast Garibaldi Community Health Services Society (Part of Vancouver Coastal Health Authority)	x	
Fraser Health Authority	x	
Kwantlen University College	x	
Enrolment Audit	x	

Appendix A
Government Entities and Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
Pacific Technology Resources Society	x	
Royal Roads University	x	
Royal Roads University Foundation	x	
Simon Fraser University	x	
Enrolment Audit	x	
Simon Fraser University Foundation	x	
SF Univentures Corporation	x	
Technical University of British Columbia	x	
The University of British Columbia	x	
Canadian HIV Trials Network		x
Cedar Lodge Society		x
Enrolment Audit	x	
University of British Columbia Foundation		x
University of Northern British Columbia	x	
Enrolment Audit	x	
University of Northern British Columbia Foundation	x	
University of Northern British Columbia Pension Fund	x	
University of Victoria	x	
Enrolment Audit	x	
Foundation for the University of Victoria	x	
Island Pacific Institute Foundation (Dunsmuir)	x	
University of Victoria Innovation and Development Corporation	x	
Other Education and Health Sector Entities:		
Colleges and Advanced Education Institutes (20 entities)		x
Health Authorities (5 entities)		x
Health Care Organizations (8 entities)		x
Regional Hospital Districts (33 entities)		x
School Districts (60 entities)		x
Provincial Employees Community Services Fund	x	

Trust Funds Disclosed in the Summary Financial Statements	Audited by: Auditor General	Audited by: Authorized Auditors
BC Rail Ltd. Pension Plan		X
British Columbia Hydro and Power Authority Pension Plan		X
British Columbia Investment Fund Ltd.		X
British Columbia Public Service Long Term Disability Plan	X	
College Pension Plan		X
Credit Union Deposit Insurance Corporation of British Columbia		X
Members of the Legislative Assembly Superannuation Account	X	
Municipal Pension Plan	X	
British Columbia Investment Management Corporation	X	
Pooled Investment Portfolios:		
Active Canadian Equity Fund	X	
Active U. S. Equity Fund	X	
Asian Equity Fund	X	
British Columbia Focus Fund	X	
Canadian Money Market Fund ST1	X	
Canadian Money Market Fund ST2	X	
U. S. Dollar Money Market Fund ST3	X	
Canadian Corporate Bond Fund	X	
Construction Mortgage Fund	X	
European Equity Fund	X	
Fixed Term Mortgage Fund	X	
Indexed Canadian Equity Fund	X	
Indexed Government Bond Fund	X	
International Equity Fund	X	
Long Term Bond Fund	X	
Pension Bond Fund	X	

Appendix A
Government Entities and Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
Private Placement Fund 1995	x	
Private Placement Fund 1996	x	
Private Placement Fund 1997	x	
Private Placement Fund 1998	x	
Private Placement Fund 1999	x	
Private Placement Fund 1999A	x	
Private Placement Fund 2000	x	
Realpool International Vintage Fund 1999	x	
Realpool Investment Fund	x	
S & P 500 Index Equity Fund	x	
Short Term Bond Fund	x	
Specialty Mortgage Fund	x	
TSE 100 Index Equity Fund	x	
TSE 300 Ex Equity Fund	x	
U.S. Index Enhanced Equity Fund	x	
U.S. Value Index Equity Fund	x	
Public Service Pension Plan		x
Teachers' Pension Plan	x	
Workers' Compensation Board of British Columbia	x	
Workers' Compensation Board Superannuation Plan		x

Appendix B
A Summary of the Office's 2001/02 Reports

A Summary of the Office's 2001/2002 Reports —Assessing Government Performance

Managing Interface Fire Risks

This report presents a number of recommendations to the Provincial Emergency Program, the Ministry of Forests Protection Branch, and the Office of the Fire Commissioner.

British Columbia has the highest risk of interface fires in Canada because of its climate and topography. Effective fire risk management requires provincial and local governments to work together. However, roles and responsibilities of key agencies are unclear. There is a lack of complete and reliable information about past fire events, and relatively low levels of awareness among local governments and residents about the interface fire risks in their areas. In many communities with high or moderate risks, fire prevention work is insufficient, and even where measures aimed at controlling the risk are reported to be in place, non-compliance appears to be a common problem.

Transportation in Greater Vancouver: A Review of Agreements between the Province and TransLink, and of TransLink's Governance Structure

We reviewed the structure set up to govern the Greater Vancouver Transportation Authority ("TransLink') and the agreements originally made between the Province and TransLink.

The report concluded that TransLink has been unable to meet its service and financial expectations because the Province did not live up to its commitment to assist the authority in collecting a vehicle levy. Without the necessary revenues, TransLink has had to suspend its service growth and reduce its expansion plans to avoid running a deficit. The report recommends that the Province should follow through on its commitment to help TransLink efficiently collect the revenue it needs to maintain and expand its service levels.

The lack of agreement between the Province and Translink on two SkyTrain-related issues is also covered in the report. One issue is who will pay the start-up costs on the new Millennium line (extending from Columbia Station to Lougheed Mall and beyond). The other issue is whether Bombardier Inc. should still be contracted to operate and maintain the system.

Appendix B
A Summary of the Office's 2001/02 Reports

Building Better Reports – Public Performance Reporting Practices in British Columbia

This review was part of Auditor General's ongoing effort to ensure legislators and the public receive the best information possible for assessing the performance of government.

In this first review of the annual reports and performance plans of government, we concluded that no one plan or report completely satisfied the review criteria. Yet we expect the quality of information provided to legislators and the public to improve over time. Organizations are at different points on the spectrum for measuring and managing performance, and this inevitably will be reflected in their reporting. Setting out the few critical measures that demonstrate the performance of an organization is difficult to do – but the effort is worthwhile.

Monitoring the Government's Finances

This report sets out a framework of information to monitor the government's finances based on the last five years of audited financial information and on guidance developed by The Canadian Institute of Chartered Accountants.

In the five-year period ended March 31, 2001, we report the extent to which the economy has been able to sustain the demands placed on it by the BC government compared to other provinces and to Canada as a whole. Based on this comparison we concluded that, over the year ended March 31, 2001, BC's economy has been the second most able to support its government's past revenue raising and spending practices.

Another widely used indicator of government financial performance is its credit rating. During the five year period to March 31, 2001, BC has kept its high standing in the international financial market, although its ranking among provinces has dropped to second, after Alberta.

Management of the Information Technology Portfolio in the Ministry of the Attorney General

Many IT projects in both the private and public sectors are never completed on time or on budget, and many end up unable to do all they were intended. Managing IT well is currently one of the hardest jobs facing both public and private sector managers. In government, IT has become critical to how well and how cost-efficiently our public agencies deliver the services we all depend on as citizens. For this reason, improving the way IT systems are developed and managed means improving the public good.

The Attorney General, responsible for administering justice in British Columbia, depends on IT to deliver a large number of essential services, among them the operation of courts and prisons. To evaluate how well the ministry was managing its systems, the auditor general's study used the "portfolio management model" as a standard for comparison.

The ministry has established strong senior management control over the development and use of IT projects. We recommended a number of ways in which the ministry could improve how it assesses the potential value and risk of proposals and how it manages risk during projects.

Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System

This audit focuses on the way resources were allocated to the regional health care system for the period 1999–2002 and assessed whether:

- the ministry had established clear direction for the regional health care system;
- the ministry was using appropriate information to support its resource allocation decisions; and
- the ministry assessed and reported on the overall performance of the regional health care system.

We found that the Ministry of Health has been allocating resources to the regional health care system without using essential cost and performance information. Instead allocations

were based on historical spending levels, and there was no clear connection between the ministry's stated objectives and its resource allocation processes. As a result, the funding system was neither understandable or transparent.

With approximately $5.9 billion allocated to the regional health care system in 2001/02 and with new technologies and other cost drivers continuing to put pressure on the health care system, good cost and performance information is critical to the ministry knowing if it is spending too much, too little or the right amount on the system.

Service Plan, 2002/03–2004/05

The plan sets out our work program and intended use of available resources for the next three years, focusing on the first, 2002–2003. The independence and autonomy granted to the Auditor General by the Legislative Assembly makes the Office's accountability to the Assembly imperative. This plan serves as the initial piece of that accountability relationship.

The Service report which will be tabled at the end of June 2003 will complete this reporting cycle by providing information about the Office's performance for the year, assessed against this plan.

Appendix C
External Presentations

Date	Presenter	Topic
September 2001	Wayne Strelioff	Greater Vancouver Regional District – Council of Council Meeting, "Transportation in Greater Vancouver: A Review of Agreements Between the Province and Translink, and of Translink's Governance Structure, Report 2 – August 2001," Vancouver.
October 2001	Wayne Strelioff	Institute of Internal Auditors/Institute of Chartered Accountants of British Columbia Luncheon, "The Evolving Role of BC's Auditor General, Vancouver.
November 2001	Les McAdams	Pacific Health Forum, "Accountability in the Health Sector," Vancouver.
December 2001	Les McAdams	Government of Ireland, "Performance Measurement and Reporting," Dublin.
January 2002	Wayne Strelioff	Financial Management Institute, "The Changing Work of BC's Auditor General,"Victoria.
February 2002	Susan Jennings	Certified General Accountants Association, Financial Management Institute and Certified Management Accountants Association Professional Development Workshop, "Building Better Reports," Victoria.
March 2002	Wayne Strelioff	Wildland/Urban Interface Fire Symposium, "Managing Interface Fire Risks, Report 1–June 2001," Penticton.
March 2002	Wayne Strelioff	Information System Auditing and Control Association, "Management of the Information Portfolio in the Ministry of Attorney General, Report 5–February 2002," Victoria.